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Message Text

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EUR/RPE:EHPREEG
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S/S-O:DLMACK
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C O N F I D E N T I A L STATE 010224

EXDIS

E.O. 11652: GDS

TAGS: ENRG/IEA

SUBJECT:IEA-NORWEGIAN ALLOWANCE TO LONG-TERM PROGRAM

REF: OSLO 0131

FOR THE AMBASSADOR

1. WE ARE CONCERNED BY INDICATIONS FROM AMBASSADOR RAVNE, REPORTED REFTEL, THAT NORWAY MAY NOT BE PREPARED TO ADHERE TO LONG-TERM PROGRAM AT IEA GOVERNING BOARD MEETING ON JANUARY 29-30. YOU SHOULD RAISE THIS SUBJECT ASAP WITH GON FOREIGN MINISTER FRYDENLUND, DRAWING ON THE FOLLOWING POINTS.

2. WE RECOGNIZE THAT UNDER TERMS OF NORWAY'S ASSOCIATION AGREEMENT WITH IEA, NORWEGIAN FAILURE TO ADHERE TO LONG
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TERM PROGRAM WOULD NOT BE LEGAL OBSTACLE TO ADOPTION OF

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PROGRAM BY OTHER 17 MEMBERS. (NOTE - UNDER THE ASSOCIATION AGREEMENT AND THE SUBSEQUENT GOVERNING BOARD DECISION ON INSTITUTIONAL ARRANGEMENTS FOR THE PARTICIPATION OF NORWAY, NORWAY'S VOTE IS NOT TO BE COUNTED IN ANY NON-BUDGETARY DECISIONS UNDER THE IEP WHICH REQUIRE UNANIMITY. AS A SERIES OF NEW COMMITMENTS, THE LONG-TERM PROGRAM REQUIRES UNANIMITY.)

3. HOWEVER, WE BELIEVE THAT AS A PRACTICAL MATTER THE FAILURE OF NORWAY TO ADHERE TO THE PROGRAM IN THE JANUARY 29-30 MEETING UNDER SAME TERMS AND CONDITIONS AS THE OTHER MEMBERS, WOULD GRAVELY JEOPARDIZE THE ADOPTION OF THE LONG-TERM PACKAGE. THE PROGRAM CONTAINS A DELICATELY STRUCTURED BALANCE OF COSTS AND BENEFITS, PRIMARILY BETWEEN THE IEA ENERGY PRODUCING COUNTRIES ON THE ONE HAND AND THE NON-PRODUCERS ON THE OTHER. A DECISION BY NORWAY --ONE OF THE IEA'S MAJOR POTENTIAL ENERGY PRODUCERS-- TO POSTPONE A DECISION ON ADHERENCE TO THE PROGRAM WOULD UPSET THIS BALANCE AND WOULD QUITE PROBABLY CAUSE CERTAIN OF THE NON-PRODUCERS (E.G. DENMARK, SWEDEN, JAPAN, ETC.) TO TAKE A SIMILAR POSITION. THIS WOULD BE A SERIOUS SETBACK TO CONSUMER COOPERATION IN GENERAL AND THE CREDI-BILITY OF THE IEA IN PARTICULAR.

4. ON CHAPTER V, DAVIGNON HAS NOW CIRCULATED HIS DRAFT STATEMENT ON THE PROBLEMS OF DELEGATIONS CONCERNING THIS CHAPTER. HE AND THE CANADIANS ARE CONSULTING ON THE TEXT OF THE CANADIAN STATEMENT WHICH SHOULD BE AVAILABLE SOON. THE CANADIANS HAVE ALSO MADE DIRECT REPRESENTATIONS IN ALL IEA CAPITALS WITHIN THE PAST WEEK, SPELLING OUT IN DETAIL THE SPECIAL FACTORS WHICH REQUIRE THEM TO REQUEST AN EXCEPTION FROM CHAPTER V AND PLEDGING INTENSIFIED EFFORTS IN THE OTHER AREAS OF COOPERATION TO PRODUCE NEW ENERGY SUPPLIES. WE TOO WILL WANT TO STUDY THE DAVIGNON TEXTS, BUT AT THIS POINT WE ARE SATISFIED THAT THE CANADIAN CASE IS SUI GENERIS, AND WE ARE PREPARED TO AGREE TO THE EXCEPTION ON THAT BASIS. WHILE WE HAVE MANY OF THE SAME CONCERNS ON THE ACCESS ISSUE AS COVERED IN CHAPTER V AS NORWAY, WE BELIEVE THAT THE CURRENT TEXT ADEQUATELY MEETS OUR INTERESTS. WE BELIEVE THAT THE NATURE AND LEVEL CONFIDENTIAL

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OF THE COMMITMENTS PROVIDED IN CHAPTER V ARE THE MINIMUM POSSIBLE TO PROVIDE AN ACCEPTABLE BALANCE IN THE OVERALL AGREEMENT.

5. ON CHAPTER III, WE UNDERSTAND THE NORWEGIAN CONCERN OVER THE APPARENT CONTRADICTION BETWEEN THE INCLUSION OF A CONSUMPTION TAX ON THE LIST OF POSSIBLE MSP IMPLEMENTING MEASURES AND THE OBJECTIVE OF ASSURING THAT NORWEGIAN OIL

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ENJOYS PREFERENTIAL TREATMENT WITHIN EUROPEAN MARKETS VIS-A-VIS OPEC OIL IN THE EVENT THAT THE MSP IS ACTIVATED. COUNTRIES APPLYING A CONSUMPTION TAX AS AN MSP MEASURE WOULD NOT BE ABLE TO DISTINGUISH BETWEEN IEA AND NON-IEA PRODUCED OIL.

6. IN THE FIRST STAGE OF NEGOTIATIONS ON THE MSP, WE, NORWAY, AND THE UK PUSHED FOR A DEFINITION OF IMPORTED OIL AS ALL OIL PRODUCED OUTSIDE THE IEA AREA, THUS GIVING IEA PRODUCED OIL A CLEAR PREFERENCE WITHIN THE IEA AREA. OTHER COUNTRIES STRONGLY OPPOSED THIS DEFINITION ON THE GROUNDS THAT IT WOULD CONFLICT WITH THEIR NON-DISCRIMINATION COMMITMENTS UNDER THE GATT. THEREFORE, A COMPROMISE WAS NEGOTIATED DEFINING IMPORTED OIL AS OIL COMING INTO ANY INDIVIDUAL IEA COUNTRY, WITH EXCEPTIONS FOR IEA OIL PRODUCED IN AND TRADED AMONG MEMBERS OF THE SAME CUSTOMS UNION OR FREE TRADE AREA. THIS FORMULATION WOULD MEET NORWAY'S MAJOR ECONOMIC INTEREST OF ENSURING THAT THE MSP SYSTEM OFFERS THEM AN ANNUAL MARKET FOR THEIR EXPORTS AT THE MSP LEVEL. HOWEVER, SINCE THE EC HAS NOT YET AGREED TO APPLY THE MSP AS A COMMUNITY REGIME, THE EIGHT EC IEA COUNTRIES, IN ORDER TO BE ABLE TO COMMIT TO AN MSP IN THE IEA, MUST HAVE THE LEGAL POTENTIAL TO IMPLEMENT THE MSP THROUGH NATIONAL MEASURES, I.E. CONSUMPTION TAXES.

7. THE EIGHT EC IEA COUNTRIES HAVE CLEARLY STATED THEIR INTENT THAT (1) THE EC WILL ADOPT AN MSP SYSTEM FULLY COMPATIBLE WITH THE IEA'S SYSTEM, AND (2) THAT NORWEGIAN OIL WOULD BE ACCORDED THE PREFERENTIAL STATUS NORWAY SEEKS UNDER THE EC SYSTEM. THE TEXT OF THE LONG TERM PROGRAM AS IT EMERGED FROM DECEMBER 19 MEETING CONTAINS FOOTNOTE STATING THAT THE OBJECTIVE OF THE PARTICIPATING COUNTRIES IN APPLYING THE DEFINITION OF IMPORTED OIL CONFIDENTIAL

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"WILL BE THAT OIL PRODUCED WITHIN THE EC OR WITHIN FREE TRADE AREAS IN EUROPE WILL NOT BE TREATED AS IMPORTED OIL WHEN TRADED WITHIN THESE AREAS AMONG PARTICIPATING COUNTRIES." IN THE MEANTIME, THE EC, UNDER PRESSURE FROM THE EIGHT, IS MAKING SLOW BUT STEADY PROGRESS TOWARD ELABORATION AND ADOPTION OF AN EC MSP SYSTEM IN THE CONTEXT OF AN OVERALL ENERGY POLICY. THE EC IS EXPECTED TO EMPLOY A VARIABLE LEVY AS AN MSP IMPLEMENTING MECHANISM, THUS ASSURING THAT NORWEGIAN OIL COULD BE SOLD BEHIND THE SHIELD OF THE LEVY UNDER NORWAY'S FREE TRADE AGREEMENT WITH THE EC AND RECEIVE PREFERENCE VIS A VIS OPEC OIL.

8. HOWEVER, A DECISION BY NORWAY TO DEFER ITS DECISION ON ITS ADHERENCE TO THE LONG-TERM PROGRAM, PENDING EC

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ADOPTION OF THE MSP, AND THE LIKELIHOOD THAT THIS WOULD CAUSE INDEFINITE POSTPONEMENT OF FINAL IEA ADOPTION OF THE LONG-TERM PROGRAM, WOULD REMOVE ONE OF THE MAJOR FORCES MOVING THE EC TOWARD AGREEMENT ON THE MSP, AND PLACE AT RISK THE COMMUNITY'S ULTIMATE ADOPTION OF THE PROPOSAL. THUS, IN ORDER TO ASSURE THAT NORWAY'S MAJOR ENERGY INTERESTS ARE PROTECTED THROUGH THE ADOPTION OF AN MSP BY THE EC, IT IS ESSENTIAL THAT THE IEA AGREEMENT MOVE FORWARD AS SCHEDULED WITH FORMAL ADOPTION AT THE END OF THIS MONTH.

9. IN VIEW OF THIS SITUATION, WE STRONGLY HOPE THAT THE NORWEGIAN GOVERNMENT, AFTER STUDY OF TEXTS BEING CIRCULATED BY DAVIGNON AND TAKING ACCOUNT OF STATEMENT OF INTENT CONCERNING TREATMENT OF IEA PRODUCED OIL AS CONTAINED IN FOOTNOTE IN TEXT, WILL BE ABLE TO ADHERE FORMALLY TO LONG-TERM PROGRAM ON JANUARY 29-30.

10. FOR BRUSSELS: PLEASE ADVISE DAVIGNON OF OUR DEMARCHE IN OSLO AND ASK HIS ASSESSMENT OF NORWEGIAN ATTITUDE ON LONG-TERM PROGRAM. KISSINGER

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